

# **Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thaba Chweu Local Municipality**

## **Report on the audit of the financial statements**

### **Qualified opinion**

1. I have audited the financial statements of the Thaba Chweu Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Thaba Chweu Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

### **Basis for qualified opinion**

#### **Property, plant and equipment**

3. The municipality revalued its community assets and buildings using the deemed cost of depreciated replacement value. I was unable to obtain sufficient appropriate audit evidence to support the deemed cost used to calculate the value of some of these assets. I was unable to determine these adjustments and deemed cost calculations by alternative means, due to weaknesses in the controls of the municipality. Consequently, I was unable to confirm whether adjustments were necessary to the property, plant and equipment amount of R1 155 422 178 (2016-17: R1 132 804 101) in the statement of financial position.

#### **Accumulated surplus**

4. The municipality's adjustment to its opening balance of the accumulated surplus in the statement of changes in net assets by R16 464 507 could not be supported by sufficient appropriate evidence. I further could not identify which other account balances and classes of transactions were affected by this adjustment made in the accumulated surplus. I was unable to confirm this adjustment by alternative means due to weaknesses in the internal control of the municipality. Consequently, I was unable to determine whether any adjustments were necessary to the accumulated surplus stated at R873 120 132 (2016-17: R876 635 504) in the statement of changes in net assets.

### **Consumer debtors**

5. In terms of GRAP 104, *Financial instruments*, an entity is required to assess individually significant financial assets for impairment where there are indicators of impairment and to collectively assess significant financial assets with groups of assets with similar characteristics. Contrary to this requirement, the municipality did not assess the payment history to calculate impairment during 2017. Consequently, I was unable to determine if any adjustments were necessary to consumer debtors amounting to R42 363 944. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of consumer debtors.

### **Loss on disposal of assets**

6. During 2017, the municipality wrote off some of its land used for reconstruction and development programme houses amounting to R80 916 146 in 2017 instead of in the period in which the municipality lost control over those assets. As a result, the loss on disposal of assets stated at R119 983 473 was misstated. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of the loss on disposal of assets.

### **Irregular expenditure**

7. The municipality did not have adequate controls to prevent and detect irregular expenditure to ensure that all irregular expenditure was disclosed in accordance with section 125(2) of the MFMA. In addition, the municipality made payments in contravention of the supply chain management (SCM) requirements, resulting in additional irregular expenditure of R56 241 599 (2016-17: R29 056 897), which was not disclosed in note 42 to the financial statements. I was unable to determine whether any further adjustments were necessary relating to irregular expenditure disclosed at R394 152 158 (2016-17: R298 985 679) in note 42 to the financial statements.

### **Context for the opinion**

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Material uncertainty relating to going concern / financial sustainability**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Material uncertainty related to going concern**

12. I draw attention to note 50 to the financial statements, which indicates that the municipality incurred a net loss of R3 515 372 during the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R323 313 833. As stated in note 50, these events or conditions, along with other matters as set forth in note 50, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matters**

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

14. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### **Material impairments – trade debtors**

15. As disclosed in note 4 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors (including rates) amounted to R224 989 080 (2016-17: R205 868 711), which represented 74% (2016-17: 83%) of the total consumer debtors. The contribution to the provision of debt impairment was R19 120 369 (2016-17: R14 683 374).

### **Material losses – electricity**

16. As disclosed in note 43 to the financial statements, material electricity losses of 28 097 897 units (2016-17: 22 686 955 units) were incurred, which represented 20% (2016-17: 18%) of the total electricity purchased.

### **Material losses – water**

17. As disclosed in note 43 to the financial statements, material water losses of 6 412 468 kilolitres (2016-17: 6 424 650 kilolitres) were incurred, which represented 66% (2016-17: 66%) of the total water purchased.

### **Unauthorised expenditure**

18. As disclosed in note 40 to the financial statements, the municipality incurred unauthorised expenditure of R8 459 017.

## **Fruitless and wasteful expenditure**

19. As disclosed in note 41 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R22 042 825.

## **Other matter**

20. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

21. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of the accounting officer for the financial statements**

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
23. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

26. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
28. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Objectives</b>	<b>Pages in the annual performance report</b>
KPA 1 – basic service delivery and infrastructure development	xx – xx

29. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
30. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

## **KPA 1 – basic service delivery and infrastructure development**

### **Various indicators**

31. The systems and processes that enable reliable reporting of the achievement against the following indicators were not adequately designed. The means of verification for these indicators cannot be collected consistently to report on them.

- Number of Waste Management Compliance & Monitoring reports developed and submitted by 30 June 2018.
- Frequency of Collection of Waste for domestic households and Businesses by 30 June 2018.
- % Compliance to Cemetery management system by 30 June 2018.
- Facilitate Development contribution by Private Institutions by 30 June 2018.

### **Various indicators**

32. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets as reported in the annual performance report. This was due to limitations placed on the scope of my work as no corroborating evidence was submitted. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

- To conduct Feasibility study up to completion phase on Waste Water treatment Plant at Mashishing Ext 02 by 30 June 2018
- Number of Sewer Pump Station facility Constructed at Graskop Ext 5 by 30 June 2018
- Number of Waste water Treatment plant refurbished at Sabie by 30 June 2018
- To conduct Feasibility study up to completion on Water Capacity at Lydenburg Ward 12 by 30 June 2018
- Number of new boreholes installed at Badfountain & Coromandel (drilled) by 30 June 2018
- Number of water meters devices installed at Lydenburg by 30 June 2018
- Number of water meters devices installed at Sabie by 30 June 2018
- Number of water meters devices installed at Graskop by 30 June 2018
- Number of km streets refurbished at Lydenburg by 30 June 2018 (Tambo Street and Kelly's Ville T junction)
- Number of km streets refurbished at Sabie by 30 June 2018 (Lekhuleni Street and Mhlanga )
- Number of km street refurbished at Graskop by 30 June 2018. (Rockyrapid Street and Bookombloom Street)
- Number of Km refurbished at Kiwi by 30 June 2018
- Number of road signage installed at Lydenburg/Mashishing, Sabie/simile and Graskop) by 30 June 2018

- Number of street names Refurbished at Lydenburg, Mashishing, Sabie, Simile, Harmoyhill & Graskop) by 30 June 2018
- Number of Electrical maintenance Plan developed and approved by 30 June 2018
- Number of progress reports on Implementation of 40MVA 132/22 KV Duma Substation developed and submitted to Council by 30 June 2018
- Number of progress reports on Installation of Split Smart meters developed and submitted to Council by 30 June 2018
- Number of Energy Saving globes retrofitted on streetlights at Lydenburg, Sabie & Graskop by 30 June 2018
- Number of households electrified at Simile -Nkanini by 30 June 2018

33. I was unable to obtain appropriate audit evidence for the reported achievement of 22 of the 68 indicators relating to this objective. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the following indicators:

Indicator	Reported achievement
Number of km pipeline installed at Simile to Tweefontein by 30 June 2018	Target achieved.2.3 km pipeline installed at Simile to Tweefontein
Number of new km pipeline installed at Harmony Hill to Ext 3 by 30 June 2018	Target achieved. 2.2km of new pipeline installed at Harmony Hill
Number of new km pipeline installed at Sabie Ext 10 by 30 June 2018	Target achieved. 0.8km of new pipeline installed
Number of Pump Station upgraded at Harmony Hill, Sabie & Simile & 0.45 km pipelines installed by 30 June 2018	Target achieved. 1 pump station upgraded at Harmony Hill, Sabie & Simile & 0.45km pipelines installed
Number of km of pipeline installed at Sabie New pump Line to Mount Anderson Reservoir and Engelbard by end of June 2018	Target achieved. 2.5km of pipeline installed at Sabie new pump line to Mount Anderson Reservoir and Engelbard
Number of km of AC pipes replaced in Lydenburg & Mashishing Township by 30 June 2018	Target achieved. 13km of AC pipes replaced in Lydenburg and Mashishing
Number of boreholes refurbished at Apara by 30 June 2018	Target achieved. 2 boreholes refurbished at Apara
Number of boreholes maintained at Coromandel by 30 June 2018	Target achieved. 2 boreholes refurbished at Apara
Number of km street & culvert refurbished in Simile RDP section by 30 June 2018	Target achieved. 0.7km street and 2 culverts refurbished
Number of km road at Shaga Village refurbished by 30 June 2018 ( Main Access Street next to the Café)	Target achieved. 0.5km Main access street next to the café refurbished
Number of km street refurbished at Leroro by 30 June 2018 ( Borrow Machine Street to the reservoir)	Target achieved. 1.0km borrow machine street to the reservoir road at Leroro refurbished
Number of Km refurbished at Kiwi by 30 June 2018	Target not achieved 0,56k of road refurbished at Kiwi.(no 28)
Number of km refurbished at Draai Kraal next to the elevated reservoir Village by 30 June 2018	Target achieved -0,8 km street refurbished at DraaiKraal
Number of m <sup>2</sup> of potholes patched at Lydenburg Town & Mashishing by 30 June 2018	Target achieved. 3945m Potholes patched at Lydenburg and Mashishing by 30 June 2018.
Number of m <sup>2</sup> of potholes patched at Sabie, Simile & Harmony by 30 June 2018	Target achieved. 1977m Potholes patched at Sabie Simile &Harmony Hill by 30 June 2018. (No 31)

<b>Indicator</b>	<b>Reported achievement</b>
Number of m <sup>2</sup> of potholes at Graskop patched by 30 June 2018	Target achieved. 1977m Potholes patched at Graskop by 30 June 2018. (No 31)
Number of road signage installed at Lydenburg/Mashishing, Sabie/simile and Graskop) by 30 June 2018	Target not achieved 200 Road signage installed at Lydenburg/Mashishing, Sabie/simile and Graskop) By 30 June 2018 (no 34)
Number of speed humps installed at Lydenburg, Mashishing, sable and Graskop by 30 June 2018	Target achieved 31 speed humps installed at (lydenburg,mashishing ,Sabie and Graskop)by 30 June 2018 (No 36)
Number of households electrified at Sabie Ext 10 by 30 June 2018	Target achieved 100HH electrified at Sabie Ext 10 by 30 of June 2018 (no44)
Number of households electrified at Mashishing by 30 June 2018 by end of June 2018	Target achieved 406 HH electrified at Mashishing by 30 June 2018. (No 45)
Number of Cleaning campaigns conducted by 30 June 2018	Target achieved. 18 Cleaning campaigns conducted by 30 June 2018 (No.47)
Indicator Number of Areas facilitated for purchase at Spekboom, Orhigstad and Klirkspruit 30 June 2018.	Target Achieved. Land acquisition requests submitted to DHS

34. The municipality did not have an adequate record-keeping system to enable reliable reporting on the achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances; while in other cases, the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below.

<b>Indicator description</b>	<b>Reported achievement</b>	<b>Audited value</b>
Number of Water Maintenance Plan developed and submitted to Council for approval 30 June 2018	1	0
Number of grading reports on the main roads at Kiwi, Shaga, Draaiakraal, Speekboom, Ohrigstad Dam Moremela & Leroro)- developed by 30 June 2018	4	0
Number of Roads Maintenance Plan developed and approved by 30 June 2018	3	0
Number of progress reports on Implementation of 40MVA 132/22 KV Duma Substation developed and submitted to Council by 30 June 2018	4	2
Number of progress reports on Installation of Split Smart meters developed and submitted to Council by 30 June 2018	4	2

<b>Indicator description</b>	<b>Reported achievement</b>	<b>Audited value</b>
Number of Skip bins facilitated for procurement and distributed at Lydenburg, Sabie and Graskop by 30 June 2018	80	0
Number of illegal dumping sites rehabilitated at Mashishing/Lydenburg, Sabie and Graskop by 30 June 2018	10	0
Number of Land fill site developed at Sabie by 30 June 2018	1	0
Number of Parks maintained four times a week in Lydenburg Town, Sabie & Graskop by 30 June 2018.	5	0
Number of Community Halls maintained four times in a week in Lydenburg/Mashishing, Sabie, Graskop & Northern areas by 30 June 2018.	8	0
Number of Stadiums maintained four times in a week in Lydenburg/Mashishing & Sabie by 30 June 2018.	2	0
Number of tickets issued by 30 June 2018	6 093	19 894
Number of incorrectly registered title deeds corrected by 30 June 2018	131	0
Number of low cost housing allocated to qualifying beneficiaries by 30 June 2018	550	525
Facilitate Development contribution by Private Institutions by 30 June 2018	1	0

**Number of cemeteries maintained four times in a week in Lydenburg Town & Mashishing Township by 30 June 2018**

35. The reported achievement of 6 for the target 'Maintain 6 Cemeteries once per quarter (maintaining includes Repairing of broken gates ,de-bushing)' is not reliable, as the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on the achievement of the target. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances; while in other cases, the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was 0, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

## **Other matter**

36. I draw attention to the matter below.

### **Achievement of planned targets**

37. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 31 to 35 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

38. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
39. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements, performance report and annual report**

40. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
41. Consolidated annual financial statements were not prepared, as required by section 122(2) of the MFMA.
42. Consolidated financial statements were not submitted to the auditor-general for auditing within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.

### **Expenditure management**

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the SCM Regulations.
45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R22 042 825, as disclosed in note 41 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest paid on overdue accounts.
46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R8 459 017, as disclosed in note 40 to the financial statements, in contravention of section 62(1)(d) of the MFMA.

#### **Asset management**

47. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Strategic planning and performance management**

48. A performance management system and related controls were not maintained, as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be managed, as required by municipal planning and performance management regulation 7(1).

#### **Procurement and contract management**

49. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
50. Some quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
51. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
52. Some contracts were awarded to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

53. Some contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.
54. Some quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
55. Some contracts and quotations were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of preferential procurement regulation 4(1) and 4(2) of 2017. These instances of non-compliance were identified in the procurement processes for the installation of 40 high mast lights in all wards of Thaba Chweu and the paving of main roads in Leroro.
56. Bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 8(2) of 2017.
57. Commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by the Preferential Procurement Regulations of 2017.
58. Commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 8(5) of 2017.
59. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
60. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
61. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

## **Other information**

62. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the accounting officer's report and the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported in the auditor's report.
63. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
64. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## **Internal control deficiencies**

66. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
67. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting as well as compliance with legislation.
68. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
69. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

70. Although the internal audit unit and the audit committee operated during the current period as per their legislated mandate, recommendations made to management on the improvement of internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation were not always implemented.

### **Other reports**

71. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
72. An investigation was conducted into some of the municipality's affairs. At year-end, the investigation had been completed.

Auditor – General

Mbombela

30 November 2018



*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected objective and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.